

CITY OF TALLAHASSEE

SINKING FUND COMMISSION AGENDA ITEM

ACTION REQUESTED ON:	December 10, 2003
SUBJECT/TITLE:	Approval of Revised Pension Investment Policy 236 to Provide for Mid-cap Class Allocation
TARGET ISSUE:	N/A

STATEMENT OF ISSUE

The City's Pension Investment Policy guides all investment considerations for the City's Pension Plan (Plan). The policy was last updated on December 12, 2001. Changes to the policy require Sinking Fund Commission approval. The Sinking Fund Commission is composed of the City Commission and three other citizens/residents of the City.

Effective January 1, 2003, Segal Advisors (Segal) was retained as the City's investment consultant. In that capacity, Segal has provided an Investment Strategy Study that provides alternative asset allocations. After reviewing the Investment Strategy Study with Segal, the Treasurer-Clerk recommends revising the Pension Investment Policy to reflect a new asset allocation. The new asset allocation model was also reviewed and unanimously approved by the Investment Advisory Committee (IAC) on August 13, 2003. The Sinking Fund Commission was originally scheduled to vote on this issue during an August 20, 2003 meeting, but the vote was postponed because the meeting was cancelled.

The most significant change to existing allocation percentages is the addition of the mid-cap class of domestic equities to the Plan's portfolio. The Investment Advisory Committee recently recommended addition of this class, but no final action was taken pending completion of the Investment Strategy Study by Segal.

RECOMMENDED ACTION

Approve the revised Pension Investment Policy 236, a copy of which is attached.

FISCAL IMPACT

None.

James O. Cooke, IV
Deputy Treasurer-Clerk

Gary Herndon
City Treasurer-Clerk

For Information, please contact: Jim Cooke, extension 8146.

Item Title: Approval of Revised Pension Investment Policy 236**SUPPLEMENTAL MATERIAL/ISSUE ANALYSIS****HISTORY/FACTS & ISSUES**

Section 65 of the Charter Laws of the City of Tallahassee created the Sinking Fund Commission. The Sinking Fund Commission is composed of the City Commission and three other residents of the City. The original purpose of the Sinking Fund Commission was to invest bond sinking funds to the best advantage of the City. The City's pension fund investment policy statement expanded the role of the Sinking Fund Commission to include oversight responsibility for investing the assets of the City's pension plan. Section 51 of the City Charter places specific responsibility for administering all the investment programs of the City with the Treasurer-Clerk. The City's Pension Fund Investment Policy Statement further provides that the Treasurer-Clerk is responsible for administrative and operating functions of investments necessary for efficient, effective, and prudent management of pension plan assets. The three citizen members of the Sinking Fund Commission comprise the Investment Advisory Committee, whose responsibilities include meeting with the Treasurer-Clerk for quarterly reviews of plan performance, making recommendations to the full Sinking Fund Commission related to investment of Plan assets, as deemed necessary, and notifying the Treasurer-Clerk of anything that comes to their attention that may negatively impact the plan investments or investment managers.

The City also retains an investment consultant to provide various services, including asset allocation strategies, manager searches, performance review and analysis, and other investment consultation as needed. The City's Pension Investment Policy guides all investment considerations by the Treasurer-Clerk, the IAC, the Sinking Fund Commission, and the consultant. Changes to the policy require Sinking Fund Commission approval. The policy was last updated on December 12, 2001.

Segal Advisors (Segal) was retained on January 1, 2003 as the City's investment consultant. In that capacity, the Treasurer/Clerk and IAC requested that Segal perform an Investment Strategy Study to determine a recommended asset allocation. The asset allocation models recognize the need to diversify and provide percentages for various asset classes (large cap equities, international equities, fixed income, etc.). These investment strategies are designed to provide sufficient investment returns for the Plan to meet its benefit obligations while balancing the need to maximize returns at a desired risk tolerance. After reviewing the Investment Strategy Study with Segal, the Treasurer-Clerk recommends revising the pension investment policy to reflect the new asset allocation. The new asset allocation model was also reviewed by the IAC on August 13, 2003. The IAC unanimously recommended approval of the proposed change.

The proposed asset allocation plan establishes the following asset allocations, Domestic Equities 45%, International Equities 10%, Real Estate 5% and Fixed Income 40%. The previous allocation included Domestic Equities at 42% and Fixed Income at 43%; Real Estate and International Equities percentages are unchanged. The most significant change to the existing allocation is the addition of the mid-cap class of domestic equities to the Plan's portfolio. The Investment Advisory Committee recommended addition of this class, but did not identify the amount to be allocated the mid-cap class. The amount to be invested in mid-cap equities is included as part of the comprehensive recommendation by the Treasurer-Clerk; therefore, the Investment Advisory Committee recommendation to invest in mid-cap equities has been accepted and incorporated into the overall recommendation to update the plan's asset allocation model.

OPTIONS:

1. Approve the revised Pension Investment Policy 236, a copy of which is attached.
2. Do not approve the revised Pension Investment Policy, and provide further direction to staff.

ATTACHMENTS/REFERENCES

Pension Investment Policy 236